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March 23, 2017

Filed Via Delafile

Donna Nickerson
Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: Docket No. 14-193 – Compliance Filing Per Paragraph 86
of the Amended Settlement Agreement

Dear Ms. Nickerson:

Pursuant to the requirements of Paragraph 86 of the Amended Settlement Agreement in the above referenced docket, approved by the Delaware Public Service Commission in Order No. 8746, dated June 2, 2015, enclosed please find the report of Delmarva Power & Light Company describing the integration efforts undertaken as of the first twelve (12) months following the consummation of the merger with Exelon Corporation.

Should you have any questions, please do not hesitate to contact me at 302-429-3143 or Heather Hall at 302- 451-5325.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Pamela J. Scott", is written over the typed name.

Pamela J. Scott

Enclosure

cc: Heather Hall (w/enclosure)

DELMARVA POWER & LIGHT COMPANY
FOR THE SIX-MONTH PERIOD ENDING MARCH 23, 2017

Introduction

This Report to the Delaware Public Service Commission (Commission) has been prepared pursuant to Paragraph 8 of Exhibit A to Order No. 8952 in Docket No. 14-193, dated October 18, 2016.¹ With respect to integration efforts, Paragraph 8 requires Delmarva Power & Light Company (Delmarva) to provide to the Commission a report that includes an update regarding integration efforts six months after the consummation of the Merger, and every six months thereafter, for a period of two years post-Merger close. Provided herein is the second semi-annual report on the integration efforts, including: (i) an update on utility organization alignment; (ii) descriptions of the integration initiatives completed; (iii) overall status of the Merger commitments; and (iv) initial progress on Merger synergies.

Update On Utility Organization Alignment

As mentioned in the first semi-annual report on the integration efforts, the PHI utility companies were not part of the staffing and selection process, which was limited to the PHI Service Company (PHISCo)², but the utility companies did go through an organization alignment process that completed in August. One objective of the organizational alignment was to restructure the organizations in line with the Exelon Utilities standard organizational design. This restructuring resulted in the creation of a few new departments to perform functions such as human performance, centralized project & contract management and work management. The organizational alignment did not result in a net reduction due to involuntary attrition of Delmarva employees. Since the prior semi-annual report was filed, the human performance group has been fully staffed and is now operational, as described below:

Human Performance Group

Since being formed, the new Performance Assessment Group (PAG) began rolling out the company's Human Performance and Corrective Action program in alignment with the other Exelon Utilities.

- Currently 45 employees across PHI are trained on how to conduct Root Cause Investigations (RCI). RCI's are used for serious or significant incidents that require an

¹ Paragraph 86 of the Amended Settlement Agreement in Docket No. 14-193, approved by Commission Order No. 8746, dated June 2, 2015 (Settlement Agreement) required Delmarva Power & Light Company (Delmarva) to provide the Commission with a report that includes an update regarding integration efforts six months after the consummation of the Merger, and every six months thereafter, for a period of two years post-Merger close. Paragraph 86 of the Settlement Agreement was later superseded by Paragraph 8 of Exhibit A to Order No. 8952 in Docket No. 14-193, dated October 18, 2016. With respect to integration efforts, Paragraph 8 of Order No. 8952 also requires Delmarva to provide an integration report to the Commission every six months for a period of two years post-Merger close.

² PHISCo provides shared services to the PHI utilities of Delmarva, Atlantic City Electric Company and Potomac Electric Power Company.

in depth investigation led by trained individuals. These investigations typically take a minimum of a month and the full-time commitment of several employees.

- Employees have been provided an Event Free Performance Tool Book as a resource. Field and office employees use the Tool Book to recognize and address error-likely situations, thereby preventing an adverse event. The Tool Book is pocket-sized, enabling field employees to keep it with them to reference on the job.
- Human performance events are shared as necessary on the daily operations call. Information shared includes a description of the event, immediate corrective actions and potential future corrective actions based on the initial investigation.
- A Human Performance intranet page has been developed for employees and provides a variety of links to training resources and job aids.
- The new PHI Safety Manual is currently being distributed to employees and will go into effect in June. The new manuals have been revised to align PHI with other Exelon Utilities and to incorporate employee feedback and changes in OSHA regulations.

Description of Integration Initiatives Completed

Prior to the Merger close, integration teams representing nine different business areas developed migration plans containing initiatives that would be completed after the first 100 days post-Merger close. Of the total 233 initiatives contained in these plans, 110 have been completed to date. A centralized project management office oversees the tracking and reporting on the progress of each initiative. Following are highlights of the major initiatives completed, grouped by: 1) Utility-related and 2) Support Services.

1. Utility-related Initiatives

Development Program For Field Supervisors

The Training and Human Resources organizations launched a professional development program to help field supervisors lead effectively through the transition of becoming an Exelon company with a three-day "Supervisor Development Summit." The program, called PHI Thrive, is divided into three phases that run through early 2018 (the first two phases are underway while the last phase starts later in 2017). The first phase builds on previous PHI leadership development, provides Exelon business insight and perspective and fosters cross-functional relationships. It clarifies Exelon's expectations for leaders, aligns the group with Exelon's people management philosophy and provides guidance on navigating upcoming changes for participants. A second phase is offered at the regional level to give supervisors more guidance on working with unions and managing union employees. The second phase includes Management Action Response Checklists (MARC) training and the Fact-Finding and Consensus Processes. The third and final phase checks in on how lessons were applied in the field and what additional actions are necessary for leadership.

Lock Out Tag Out Process

This past November, field crews began using the Exelon Utilities' Lock Out Tag Out (LOTO) process for all switching and clearance work. More than 1,400 PHI employees and contractors were trained on the new process and new tags and forms were distributed to crews. To help with the transition, special teams — including more than 30 people from Exelon sister utilities BGE and PECO were at several locations to answer employees' questions and supply feedback. LOTO replaces PHI's previous Permit and Tagging procedure for switching and isolating transmission and distribution equipment to protect employees during maintenance and construction activities. A common EU LOTO process enables more efficient mutual assistance across the EU utility companies since the EU companies and contractor employees bring the knowledge and familiarity with requesting and executing equipment and worker isolation. The efficiency of this standardized practice was demonstrated during the recent Winter Storm Stella when over 400 employees and contractors from BG&E, ComEd and PECO assisted in the power restoration efforts on the Delmarva system.

NERC Governance

PHI has been integrated into the Exelon NERC Governance Program. This included the addition of key PHI personnel to the Exelon NERC Governance model and committee structure. The program provides PHI access to a larger pool of expertise and utility best practices. Also, the integration team reviewed all governance control documents resulting in revisions to, and re-issuance of, multiple procedures to incorporate into PHI.

Summer/Winter Readiness

PHI was fully integrated into the Exelon Utilities Season Readiness program during 2016. This program includes a more comprehensive structured plan that includes both projects and corrective and preventative maintenance items. The PHI Emergency Preparedness team led this effort through both the summer and winter readiness cycles. Integration consisted of the review, orientation and implementation of program elements in all PHI utility operating areas. Teams identified and tracked seasonal readiness critical tasks for both the summer and winter seasons. The tasks were assigned to owners who provided status updates to their executives on a regular basis prior to the deadlines for both the Summer and Winter Readiness programs.

Reliability Reporting

PHI recently launched a new Employee Reliability Reporting Program. This program encourages employees to report issues of concern to the Reliability team such as vegetation or equipment issues found on the distribution system. Change management plans are in progress to communicate and promote the program and drive employee engagement.

Management Model: Peer Groups

Peer Groups provide a forum for EU employees to freely share methods, listen, creatively solve problems, be innovative and learn with the goal of improving core functions. The Peer Group objectives are to analyze performance, facilitate initiatives targeted to improve performance by adopting best practices, standardizing equipment and leverage technology to help the

companies achieve first quartile performance. PHI representatives have been integrated into the Exelon Utility Peer Groups and a representative has attended at least one meeting for all Peer Groups across Exelon. PHI representatives have also assisted with development of 2017 Peer Group initiatives as part of the integration.

2. Support Services Initiatives

Corporate Safety Program

PHI business owners, Exelon Corporate Safety & Sustainability and Exelon Utilities employees teamed to implement and integrate the corporate safety policy and program at PHI.

- Exelon Corporate Safety Policy was communicated through the Merger integration newsletter to all PHI employees and contractors. PHI management reinforced the rollout to all employees across PHI, including Delmarva, through postings and discussions on the policy.
- Exelon Safety Management System was integrated into PHI utility operations beginning in April 2016. This included PHI becoming a member of Exelon's Safety Council and Peer Groups to share lessons learned and best practices across Exelon.
- PHI's 2012-2016 performance data were included for reference in the 2016 safety management review meetings.
- PHI 2016 Safety Goals were integrated into Exelon's overall 2016 safety goals and targets. PHI implemented the contractor safety reporting metrics to track, trend and improve safety among their primary contractors.
- PHI 2017 Safety Goals were developed under the Exelon process to support additional focus in areas of improvement and to integrate utility safety best practices.
- PHI safety controlled documents were reviewed, modified, replaced, and/or created to complete integration into Exelon Corporate Safety System.
- PHI was included in an Exelon wide assessment of safety recordkeeping to ensure consistent classification and management of injury cases.
- PHI was incorporated into the 2017 Corporate Environmental Health & Safety compliance audit program schedule.
- PHI was incorporated into Exelon's Corporate Safety Achievement Award program to reward employees that go above and beyond to improve safety at PHI and Exelon as a whole.

Environmental Management System

PHI business owners, Exelon Corporate Safety & Sustainability and Exelon Utilities employees teamed to implement and integrate the corporate environment policy and program at PHI.

- Exelon Corporate Environment Policy was communicated through the Merger integration newsletter to all PHI employees and contractors. PHI management reinforced the rollout to all employees across PHI, including Delmarva, through postings and discussions on the policy.
- Exelon Environmental Management System was integrated into PHI utility operations beginning in April 2016. This included PHI becoming a member of Exelon's

Environmental Review Council and Peer Groups to share lessons learned and best practices across Exelon.

- PHI's 2012-2016 performance data were included for reference in the 2016 Environmental management review meetings.
- PHI 2016 Environmental Goals were integrated into Exelon's overall 2016 environmental goals and targets.
- PHI 2017 Environmental Goals were developed under the Exelon process to support additional focus in areas of improvement and to integrate utility environmental best practices.
- PHI was incorporated into the 2017 Corporate Environmental Health & Safety compliance audit program schedule.
- PHI was incorporated into Exelon's Corporate Environmental Achievement Award program to reward employees that go above and beyond to improve environmental stewardship at PHI and Exelon as a whole.

Employee Resource Groups

The nine (9) Exelon Employee Resource Groups (ERGs) were introduced to PHI through networking events with Exelon ERG members and information shared on the PHI intranet. ERGs are employee-led affinity groups formed on a grass-roots basis to support Exelon diversity strategies and to be a resource to the company and its employees. An introductory letter from the vice president of Diversity & Inclusion (D&I) welcomed PHI to the Exelon D&I intranet page, which includes links to the nine ERGs. In addition, the PHI Millennials ERG, which operated as a pilot ERG prior to the Merger, was officially integrated into the Exelon Millennials ERG known as DYP, Developing Young Professionals. The Exelon chapters of Developing Young Professions (DYP) in Baltimore, Boston, Chicago, Houston and Philadelphia now welcomed two new PHI Chapters, known as DYP Delmarva in Delaware and Maryland and DYP Pepco in Washington D.C. and Maryland.

IT Service Operations Consolidation

The Information Technology (IT) organization completed the transition of PHI's IT service desk for employees, enterprise infrastructure event monitoring, and incident management to Exelon's standard operating processes. The transition included the onboarding of PHI servers, video devices, and enterprise network devices over to Exelon's 24x7 monitoring console in order to eliminate duplicate functions. This migration included over 1,700 servers and 1,000 network devices.

Bill Print and Customer Correspondence

All bill and customer correspondence printing services with utility customers has converted from the prior PHI vendor over to Exelon's vendor. This aligns with Exelon Utilities convergence to a single bill print vendor. In addition to reducing costs, the vendor contract incorporated best practices related to contract structure and contractor management.

Asset Suite 8 for the Human Performance Program

IT integrated PHI into the enterprise application, Asset Suite 8, to support PHI's Human Performance Program. The new Exelon-wide platform will capture and store Condition Reports (i.e., a type of document that captures the facts associated with an adverse human performance incident and the immediate corrective actions taken to address the incident so the learnings can be shared with fellow employees as soon as possible) and Safety Observations/Audits in an effort to achieve error-free performance. Employees can view and analyze historical events and corrective actions to identify trends and help prevent similar events in the future.

Expanded Supplier Relationship

Exelon expanded its strategic relationship with Choctaw-Kaul, a minority-owned company (Native American), to relocate and expand their Central Distribution Center in New Castle, Delaware, to consolidate materials and logistics functions and vendor-managed inventories, improve operational efficiencies, and reduce total costs. Choctaw-Kaul handles all of the electrical-distribution equipment and minor materials (e.g., tools, safety supplies, janitorial supplies and other office consumables) through an integrated alliance for the entire Exelon organization. Choctaw-Kaul has staffed 18 new jobs, which exceeds their original plan to add 14 new jobs to this Delaware facility.

Long Range Plan

The Exelon Corporate and PHI Finance organizations developed a new process along with new tools to build a consolidated long range plan (LRP) for the years 2017-2021 (i.e., 5 year financial plan). The LRP includes detailed monthly budgets for each operating area in support of on-going budget management.

PHI Risk Dashboard

PHI was fully integrated into Exelon Risk Governance, which included risk assessments, consolidated reporting with legacy Exelon utilities, establishment of key risk indicators and design of dashboards and summary mitigation plans. In addition to the implementation of the new processes, tools and reporting, PHI named and staffed a Risk Utility Functional Area Manager (UFAM) and formed a PHI Risk Management Committee similar to the other Exelon Utilities.

Merger Commitments

During the pre-close Merger approval process, Exelon and PHI became subject to 675 commitments to various jurisdictions, including 148 in Delaware. Order Nos. 8952 and 8970 resulted in a net addition of 32 commitments in the State of Delaware. These additions, along with the 13 additional commitments resulting from the Most Favored Nations negotiations with New Jersey, increased the overall total to 720 commitments, bringing the total number of commitments in Delaware to 180.

Of the 180 Delaware commitments, 82 have been executed and closed to date. Of the 98 remaining open commitments, an additional 63 are on track to either close or transition to monitoring by the end of 2017, with the remaining scheduled to close over the next several years, in compliance with the requirements of Order Nos. 8952 and 8970.

Renewable Energy Workforce Development Grant

On February 13, Delmarva announced the opening of Delaware State University's Renewable Energy Education Center, which was made possible by a \$720,000 Delmarva Renewable Energy Workforce Development grant. The \$180,000 donation to launch the Center is the first installment in a four-year commitment.

Synergy Savings

The pre-Merger integration teams built a plan to generate cost savings starting in 2016, ramping up over the next five years to a target of \$131 million in 2020 on a system wide basis. The teams have been working to achieve the targets and, at this early stage in the five year synergy cost saving process, anticipate achieving those targets. As evidence of the early momentum, the teams achieved over \$26 million of cost savings across the enterprise in 2016 against a plan of \$24 million.

As mentioned in the first semi-annual report, the savings are primarily driven by labor synergies, along with non-labor savings in areas such as reduced or eliminated insurance premiums and fees, credit facility, duplicate vendors and duplicate industry memberships.

Conclusion

The integration project organization has made significant progress in integrating Delmarva and the other PHI companies with Exelon in the first twelve months following the Merger close. Considerable work remains over the next few years to complete all integration activity, realize synergy savings, and meet all Merger commitments, while continuing to focus on delivering reliable service and maintaining high standards of safety. The combined Company remains firmly committed to achieving these targets and fully realizing the benefits of the Merger.

In compliance with the provisions of Paragraph 8 of Exhibit A to Order No. 8952, Delmarva will continue to provide updates on integration efforts on a semi-annual basis for two years following Merger close. The next report will be filed in September 2017.